



JOHN CHIANG
California State Controller

June 23, 2010

Kevin Fujitani, Chief
Fiscal Systems and Consulting Unit
Operational Office
Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Fujitani:

In July 2009, the State Controller's Office (SCO) completed an audit of the California Department of Forestry and Fire Protection's Office Revolving Fund (ORF) and identified significant internal control deficiencies and lapses in collection practices. To gain a broader understanding of State agency practices with respect to their ORFs, the SCO initiated a survey of eleven state agencies (listed in Attachment 1). The purpose of the survey was to identify and compare state agency practices for handling and processing ORF transactions and to identify issues, processes, or agencies that warrant further analysis or audit consideration.

We believe the survey results may be of interest to you, as the Fiscal Systems and Consulting Unit maintains state financial manuals and provides consultation and training to other state departments. We are aware of the workgroup convened by the Department of Finance to improve the efficiency and effectiveness of State agency collection systems and processes. Therefore, we share with you the following observations identified through our survey:

- Agencies did not collect ORF receivables on a timely basis. As almost all ORF receivables consist of employee/former employee salary and travel advances, agencies should have minimal ORF receivables outstanding. The eleven agencies surveyed reported a total of \$13,314,579 in outstanding receivables as of March 31, 2009, or June 30, 2009¹; \$4,121,205 (30.95%) of which were outstanding for longer than 60 days. Of this amount, \$543,461 (13%) had been outstanding for more than three years. Generally, the prospect of collection diminishes as an account ages. When an agency is unable to collect after three years, the possibility of collection is remote.

¹ The ORF outstanding receivable date referenced is either March 31, 2009, or June 30, 2009, depending on the most recent detail of outstanding receivable files the reviewed agencies were able to generate.

- The majority of agencies did not have adequate written procedures prescribing guidelines and providing direction to employees in the collection of ORF receivables. All eleven surveyed agencies stated that employees are to follow State Administrative Manual (SAM) requirements in collecting ORF receivables. While SAM imposes general requirements, the State agencies should prescribe more detailed procedures to assign responsibility and to provide guidance concerning the nature, timing, and extent of the procedures to be performed. Seven of the eleven agencies surveyed did not possess sufficient written procedures. A correlation appears to exist between adequately documented collection procedures and the amount of ORF receivables outstanding for more than 60 days. Three of the four agencies that did submit all or the majority of the required written policies and procedures had less than 20% of their ORF receivables outstanding for more than 60 days. In contrast, six of seven agencies that did not possess sufficient written procedures had 28% to 96% of their ORF receivables outstanding for more than 60 days.
- SAM section 8100 authorizes State agencies to establish an ORF subject to a limitation of 3% of its total appropriation without approval from the Department of Finance. Our survey found that, although the surveyed agencies' ORF limits did not exceed the 3% limitation, the ORF limit for seven of the eleven surveyed agencies appear to significantly exceed the agencies' operational needs. One agency has never reached 61% of its ORF limit over the last four years. On the other hand, one of the surveyed agencies consistently exceeded its ORF limit. When an agency's ORF limit is far in excess of its needs, the agency has little incentive to replenish its ORF by requesting reimbursements or collecting receivables in a timely manner.
- Seven of the eleven agencies did not provide adequate documentation to show that their monthly required bank reconciliations were prepared in a timely manner. In one extreme case, the bank reconciliation was more than one year late.

For your information, Attachment 2 provides a summary of the data provided by the eleven surveyed agencies.

We hope you will find this information useful. If you need additional information, please contact Cathleen Dinublio, Audit Manager, at (916) 327-3928.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm

S10-SAA-901

Attachments:

Attachment 1—State Agencies Surveyed

Attachment 2—Outstanding Receivables in the Office Revolving Fund

cc: Will Kempton, Director
 Department of Transportation
David Maxwell-Jolly, Director
 Department of Health Care Services
J.A. Farrow, Commissioner
 California Highway Patrol
Selvi Stanislaus, Executive Director
 Franchise Tax Board
Stephen W. Mayberg, Director
 Department of Mental Health
Bridgett Luther, Director
 Department of Conservation
Lynn L. Jacobs, Director
 Department of Housing and Community Development
Michael Peevey, President
 California Public Utilities Commission
Patricia Haggerty, Assistant Division Director
 Judicial Branch
Dr. Mark Horton, Director
 Department of Public Health
George Valverde, Director
 Department of Motor Vehicles

Attachment 1— State Agencies Surveyed

Department of Transportation
Department of Health Care Services
California Highway Patrol
Franchise Tax Board
Department of Mental Health
Department of Conservation
Department of Housing and Community Development
California Public Utilities Commission
Judicial Branch
Department of Public Health
Department of Motor Vehicles

**Attachment 2—
Outstanding Receivables
in the Office Revolving Fund
Aging Schedule as of March 31, 2009, or June 30, 2009 ¹**

Agency	Total Receivables	Age			Percentage by Age		
		0-60 Days	61 Days to 3 Years	More Than 3 Years	Less Than 60 Days	61 Days to 3 Years	More Than 3 Years
Judicial Branch	\$ 183,950.50	\$ 7,360.22	\$ 144,851.51	\$ 31,738.77	4.0%	78.7%	17.3%
Public Utilities Commission	261,316.15	54,483.42	75,743.34	131,089.39	20.8%	29.0%	50.2%
Department of Mental Health	200,863.55	42,213.79	141,423.36	17,226.40	21.0%	70.4%	8.6%
Department of California Highway Patrol	2,600,379.91	1,178,557.76	1,332,577.05	89,245.10	45.3%	51.2%	3.4%
Department of Transportation	3,209,562.00	2,084,006.54	911,388.86	214,166.60	64.9%	28.4%	6.7%
Department of Public Health	896,394.63	643,171.78	253,222.85	—	71.8%	28.2%	0.0%
Department of Conservation	330,651.37	238,632.26	65,412.54	26,606.57	72.2%	19.8%	8.0%
Department of Motor Vehicles	1,933,564.41	1,716,603.10	184,111.34	32,849.97	88.8%	9.5%	1.7%
Franchise Tax Board	2,876,267.07	2,440,546.10	435,280.51	440.46	84.9%	15.1%	0.0%
Department of Health Care Services	808,461.27	774,728.57	33,732.70	—	95.8%	4.2%	0.0%
Department of Housing and Community Development	13,168.27	13,070.48	—	97.79	99.3%	0.0%	0.7%
Total	<u>\$ 13,314,579.13</u>	<u>\$ 9,193,374.02</u>	<u>\$ 3,577,744.06</u>	<u>\$ 543,461.05</u>	69.0%	26.9%	4.1%

Source: Compiled from data provided by the surveyed agencies.

¹ The ORF outstanding receivable is as of either March 31, 2009, or June 30, 2009, depending on the most recent detail outstanding receivable files the 11 agencies were able to generate.



JOHN CHIANG
California State Controller

September 13, 2010

J.A. Farrow, Commissioner
California Highway Patrol
601 North 7th Street
Sacramento, CA 95811

Dear Commissioner Farrow:

The State Controller's Office (SCO) issued a memo to the Department of Finance on June 23, 2010, transmitting the results of an Office Revolving Fund (ORF) survey for 11 state agencies. The California Highway Patrol (CHP) was one of the agencies surveyed. The purpose of the survey was to identify and compare state agencies' practices for handling and processing ORF transactions and to identify issues, processes, or agencies that warrant further analysis or audit consideration. Under Government Code section 12410, the State Controller is responsible for ensuring the legality and propriety of state disbursements.

Based upon our survey results, SCO auditors conducted a sample review of the CHP's miscellaneous transactions. Specifically, the SCO auditors selected approximately 20 transactions from the agency disbursement file for the period of July 1, 2009, through December 31, 2009, to review. In addition, the SCO auditors requested supporting documentation to substantiate the selected sample. We also reviewed pertinent Government Code (GC) and State Administrative Manual (SAM) sections to ensure that the CHP is following applicable laws and regulations when making purchases out of their respective ORFs.

Based on our review, SCO has noted the following:

Strengths

- The CHP always used an ORF check request;
- Claims denied by the SCO were resolved in a timely manner by the CHP;
- There were no instances of the ORF being used for unauthorized purposes.

Weaknesses

- The CHP did not always issue a revolving fund check or schedule claims for payment with the SCO within 45 days of receipt of an invoice as required by GC §927.4;
- The CHP issued one ORF check that was greater than \$15,000 without two signatures as required by SAM 8041;
- The CHP did not always schedule for reimbursement promptly after the issuance of a revolving fund check as required by SAM 8047.

Based on the results of the review, the SCO has concluded our ORF survey related to the CHP. If you have any questions regarding the results, please contact Cathleen Dinubilo, Audit Manager at (916) 327-3928.

Sincerely,



JEFFEREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

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S10-SAA-901

DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

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File No.: 001.9486.A13741.010

The Honorable John Chiang
California State Controller
300 Capitol Mall, Suite 518
Sacramento, CA 95814

Dear Mr. Chiang:

The State Controller's Office (SCO) recently conducted a survey of eleven state agencies to gain an understanding of their Office of Revolving Fund (ORF) practices for handling and processing ORF transactions and to identify issues, processes or agencies that warrant further analysis or audit consideration. The California Highway Patrol (CHP) was one of the eleven agencies selected for further review. On June 23, 2010, the SCO issued the results of their review to Chief Kevin Fujitani of the Department of Finance (DOF), Operations Office, Fiscal Systems and Consulting Unit.

We recognize the published review was not conducted in accordance with the General Accepted Governmental Auditing Standards, as published by the Comptroller General of the United States; therefore, the standard practice of the SCO to conduct an entrance or exit conference was not afforded to the CHP. However, since the results of the review were shared with the DOF, we would have appreciated advance notification of the review prior to the results being released to the DOF. This would have provided us an opportunity to address or provide additional information, if necessary, that may have clarified some of the issues. We believe an exit conference would have also been helpful to provide us an opportunity to understand how the SCO arrived at the figures represented in Attachment 2 of the review, in addition to knowing who would receive the results of the review. Please note, we did receive a letter dated September 13, 2010, from your office outlining strengths and weaknesses from the ORF review; however, the letter was dated after the results of the review were released to the DOF.

In accordance with auditing standards, please allow us to provide the following response to the identified "Weaknesses" in the review letter of September 13, 2010:

Issue 1: The CHP did not always issue a revolving fund check or schedule claims for payment with the SCO within 45 days of receipt of an invoice as required by Government Code Section 927.4.

The CHP agrees with this observation. To ensure a similar situation does not occur, the CHP plans to train staff on the correct methods and procedures for timely payments of invoices.

Issue 2: The CHP issued one ORF check that was greater than \$15,000 without two signatures as required by the State Administrative Manual (SAM) Section 8041.

The CHP agrees with this observation. Check number 782832 issued on October 7, 2009, was not signed by more than one person as required. Our Fiscal Management Section (FMS) has updated the authorized signatory list so sufficient staffing levels are always available for signature. Multiple review levels are now in place to identify checks greater than \$15,000. By using this document flagging system, our appropriate staff will now be alerted to the need for a second signature.

Issue 3: The CHP did not always schedule for reimbursement promptly after the issuance of a revolving fund check as required by SAM Section 8047.

The CHP agrees with this observation. Our FMS reviews the ORF Open Items and Outstanding Check reports to determine if action should be taken on any of the following:

- a. Contact the vendor to find out if the check was received or why it was not cashed;
- b. Place a stop payment on checks not received or lost;
- c. Reissue check(s) if necessary (stale, dated and lost checks);
- d. Issue a check from the Escheat Revenue account if reimbursement has been received on canceled checks; and,
- e. Prepare reimbursement claim schedules for checks that have been cashed.

For outstanding checks not being scheduled, checks for advance training cannot be scheduled until the event has occurred. Our staff will be reminded statewide, not to request advance payments more than 30 days prior to the event. In general, the following steps will be taken:

1. Resolve staffing issues;
2. Designate staff to focus on the reimbursement of ORF checks;
3. Request and review ORF Open Items and Outstanding Checks reports monthly;
4. Organize a filing system for ORF documents for easier identification of the oldest items; and,
5. Train staff on the importance of timely ORF reimbursement.

We appreciate the opportunity to respond to your review. If you have any questions, or require additional information, please contact Captain Bob Jones, our Interim Inspector General at (916) 843-3160.

Sincerely,


M.C.A. SANTIAGO, CIG, CLEA
Deputy Commissioner